

Message Text

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ACTION EUR-25

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DEPARTMENT PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, GW

SUBJECT: PROPOSALS BY BOARD OF ECONOMIC ADVISORS FOR A REFORM OF
AGRICULTURAL POLICY IN THE EC

1. THE FRANKFURTER ALLGEMEINE (FAZ) REPORTED AUGUST 6 THAT A RECENT
STUDY PREPARED BY THE BOARD OF ECONOMIC ADVISORS TO THE MINISTRY OF
AGRICULTURE PROPOSED ALTERNATIVE SOLUTIONS FOR THE CURRENT EC MARKET
AND INCOME POLICY.

2. TWO MAJOR ALTERNATIVES REPORTEDLY HAVE BEEN DISCUSSED BY THE
BOARD. THE FIRST CALLS FOR A LIBERALIZATION OF THE AGRICULTURAL
POLICY AND CONSIDERS THE CONSEQUENCES OF REMOVING PROTECTION AND EX-
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POSING AGRICULTURE TO THE MARKET FORCES OF WORLD PRODUCTION AND

TRADE. SUCH ACTION ACCORDING TO FAZ WOULD PROBABLY RESULT IN LOWER PRODUCER PRICES AND A LESSER DEGREE OF SELF-SUFFICIENCY OF AGRICULTURAL PRODUCTS IN THE FRG. THIS ALTERNATIVE HOWEVER WAS NOT CONSIDERED IN THE FINAL RECOMMENDATIONS.

3. A SECOND ALTERNATIVE SUGGESTED WHAT THE FAZ REGARDS AS A "RENATIONALIZATION" OF AGRICULTURAL POLICY IN THE EC IN ESSENTIAL AREAS. SPECIFICALLY IT WAS SUGGESTED THAT A PERMANENT BORDER COMPENSATION BE INTRODUCED WHICH WOULD NOT ONLY DIFFERENTIATE FOR CHANGES IN EXCHANGE RATES AS CURRENTLY EXISTS, BUT WOULD ALSO PROVIDE FOR IMPORT RESTRICTIONS WHICH GO BEYOND THAT.

4. IN A FOLLOW-UP ARTICLE ON AUGUST 7, THE FAZ REPORTED THAT THE BOARD IN ITS FINAL RECOMMENDATIONS TOOK A MIDDLE COURSE BETWEEN THE TWO ALTERNATIVES. ACCORDING TO THE BEST JUDGMENT OF THE BOARD OF ADVISORS, "THE INSTITUTIONS OF THE EEC SHOULD HAVE THE MEANS TO ADJUST FOR A DIFFERENTIATION OF THE FARM PRICE LEVEL BY THE APPLICATION OF OBJECTIVE ECONOMIC CRITERIA AS CONTRASTED TO THE STRONG ORIENTATION TOWARDS ADJUSTMENT SOLELY THROUGH MONETARY BORDER COMPENSATIONS. IN THE MARKETING AREA, THE BOARD OF ECONOMIC ADVISORS SUGGESTED THAT THE PRODUCER PRICE OF MILK SHOULD BE REDUCED; GRAIN PRICES SHOULD BE FIXED IN RELATION TO THEIR FEED VALUES; AND THE BASIC SUGAR QUOTA SHOULD NOT BE INCREASED. THE LATTER SUGGESTION GAVE CONSIDERATION TO THE INTERESTS OF DEVELOPING COUNTRIES.

5. SPECIFICALLY THE ADJUSTMENT OF MILK PRODUCTION WOULD REQUIRE A RELATIVELY LONG PERIOD OF TIME DURING WHICH SURPLUSES WOULD NECESSARILY HAVE TO BE PUT UP WITH AND ADJUSTMENT OF MILK PRODUCTION TO DEMAND WOULD BE POSSIBLE ONLY BY A REDUCTION OF THE MILK COW INVENTORIES. IN ORDER TO AVOID HARDSHIPS, DIRECT INCOME TRANSFERS COULD BE GRANTED.

6. ON A BROADER NOTE, THE FUTURE AGRICULTURAL POLICY SHOULD IN GENERAL BE AIMED AT THE REDUCTION OF THE PRODUCTION CAPACITY. PRODUCTION QUOTAS ARE REGARDED AS A POSSIBLE APPROACH BY THE BOARD OF ECONOMIC ADVISORS BUT NOT AS ADVISABLE BECAUSE OF THE UNFAVORABLE EFFECTS ON THE REQUIRED STRUCTURAL CHANGE. INCREASED EFFORTS WOULD ALSO BE NECESSARY IN ORDER TO ACCELERATE THE MIGRATION OF WORKERS FROM FULL-TIME AGRICULTURE AND TO FACILITATE THE MOVE TOWARD EXTENSIVE FARMING OR THE COMPLETE WITHDRAWAL OF AREAS FROM AGRICULTURE.

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TURAL PRODUCTION. IN THE CASE OF FARMS LOCATED IN MARGINAL AREAS, DIRECT INCOME TRANSFERS COULD BE PROVIDED FOR A TRANSITION PERIOD, I.E. IN ORDER TO FACILITATE THE PROCESS OF OUTMIGRATION.

7. EMBASSY COMMENT: RESPONSES TO EMBASSY QUERIES ABOUT THE PROPOSALS INDICATED THAT AN OFFICIAL STATEMENT BY THE MINISTRY OF AGRICULTURE IS BEING PREPARED. MINAG OFFICIALS BELIEVED THAT THE FAZ REPORTER HAD ACCESS TO THE STUDY AND HAD NOT MISQUOTED IT.

THE MINISTRY ALSO INDICATED THAT IT IS WORKING OUT ITS OWN RECOMMENDATIONS FOR A REFORM OF THE EC, INDEPENDENT OF THE BOARD.
HILLENBRAND

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